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SUBJECT: REPS KIRK-LARSEN MEET VICE PREMIER WANG QISHAN

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1. (SBU) SUMMARY. Congressmen Mark Kirk and Rick Larsen met with Vice Premier Wang Qishan on May 31 during their visit to Beijing as co-chairs of the U.S.-China Working Group of the U.S. Congress. Wang observed that, given the size of the U.S. economy, a U.S. recovery would spell recovery for China and the rest of the world as well. Chinese leaders concerns about China's huge holdings of U.S. debt were natural, but this also meant an early U.S. recovery was clearly in the Chinese interest, he added. Wang praised the swift action of the Obama Administration and Congress to address the economic crisis, but expressed some doubt about the ability of the USG to maintain longer-term fiscal responsibility. END SUMMARY

2. (SBU) During their meeting with Vice Premier Wang Qishan on May 31, Congressmen Mark Kirk (R-IL) and Rick Larsen (D-WA) asked the Vice Premier's views on the global economic crisis and the Renminbi exchange rate. Larsen noted recent U.S. economic indicators were sending mixed signals. Kirk stressed that the primary causes of the U.S. financial crisis did not emanate from the U.S. private sector, but from the U.S. "state-owned enterprises" of Fannie Mae and Freddie Mac, which the Congress had forced to make imprudent investments, including through the Community Reinvestment Act. Kirk said he expected U.S. government borrowing in the near-term to exceed current official estimates. According to Kirk, this along with the purchase of long-term U.S. Treasury Bonds by the Federal Reserve threatened the integrity of U.S. government debt. With China as the U.S. government's "main creditor" Kirk urged Wang to raise any concerns with Treasury Secretary Geithner (Comment: According to recent public data, China holds about 7 percent of outstanding U.S. government securities and in 2008 Chinese purchases of U.S. Treasury securities only accounted for approximately 17 percent of the change in stock of such securities. End Comment).

3. (SBU) Congressman Kirk said he expected the United States to enter into an extended period of high inflation and low growth. While a similar period during the 1970s had little impact on China, given China's much greater integration with the United States now, China needs to be prepared for this. Larsen noted that there were differences of opinion on the outlook for U.S. growth, inflation and public finances. Congressman Kirk also used the meeting to propose that China allow transit through Western China of food and fuel to Afghanistan. Finally, Representatives Larsen and Kirk invited Vice Premier Wang to visit Capitol Hill on the margins of the U.S.-China Strategic and Economic Dialogue scheduled to take place July 27-28 in Washington.

4. (SBU) Wang stressed that the U.S.-China relationship was now one

of mutual interdependence requiring close collaboration, as reflected in the two countries' joint efforts at the London G20 meeting and the vision for bilateral ties agreed to by Presidents Obama and Hu of building a positive, cooperative, and comprehensive relationship for the 21st Century. He said experts he had consulted had different views on whether the economic crisis had hit bottom. But one point everyone agreed on was that once the U.S. economy began to recover, the world economy (including China's) would follow suit. He said this was based on the fact that the United States was still the world's leading economy, both quantitatively and qualitatively, as it had been since World War Two. The big difference is that over the last 30 years, countries like China, India, Brazil and Indonesia have joined the international economic system dominated by America.

15. (SBU) Vice Premier Wang did not respond specifically to the question about the Renminbi exchange rate. Instead, Wang said China has known for a decade that it needed to foster its own domestic demand, but this had been hard to do when China was enjoying the advantages of strong external demand. He said this economic crisis would help force China to become more efficient and less dependent on export markets for its growth.

16. (SBU) Wang commended the steps taken to date by the Obama Administration and the Congress to address the financial crisis. While noting President Obama's pledge to reduce the budget deficit, Wang thought this would be difficult to achieve. When Kirk asked if China planned to continue buying U.S. Treasury bills, he replied that minor adjustments one way or the other in Chinese purchases did not matter, given China's already huge holdings of U.S. debt. Wang stressed that China's priorities in managing its reserves would remain, safety, liquidity and good value. Given the importance of safety and liquidity, China does not expect a high return on its reserve holdings. It was only natural for Chinese leaders to feel concern about these assets, and while Premier Wen said in March that

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he is a "little worried" as the responsible official, Wang is even more concerned. That said, Wang pointed out that debate over reforming the international financial system should be viewed as part of a long-term process, not something that would be implemented in the near future or a viable way to fix current problems.

17. (SBU) Wang said that for now, given America's economic pre-eminence and China's huge exposure to the fortunes of the U.S. economy, the United States is still "calling the shots" in the relationship, and power shifts to the borrower when it is as powerful as the United States. The convergence of interests made it impossible for China to do anything other than hope for an early and full U.S. economic recovery. He was confident about the prospects for recovery, whether it took two or four or five years, pointing out that humankind had overcome far greater perils during the 20th Century's two world wars. He also said that human progress, fueled by constant technological innovation, was unstoppable. He said that innovation would be the key to solving global environmental problems without asking people to give up their cars and air conditioners. Finally, Wang said the three meetings of the G20 over such a short time span were both unprecedented and a clear sign that the world's leaders were seriously committed to working together, and this also gave him confidence about the future. He noted that while there had been a consensus in the G-20 between China and the United States on how to respond to the global financial crisis and spur growth, there remained significant disagreement with and within Europe.

18. (U) Representatives Kirk and Larsen did not have the opportunity to clear this message before departing.

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